

VZCZCXRO5905
RR RUEHLMC
DE RUEHUM #0552/01 2010706
ZNY EEEEE ZZH
R 200706Z JUL 06
FM AMEMBASSY ULAANBAATAR
TO RUEHC/SECSTATE WASHDC 0140
INFO RUEHBJ/AMEMBASSY BEIJING 5122
RUEHRL/AMEMBASSY BERLIN 0055
RUEHLO/AMEMBASSY LONDON 0037
RUEHML/AMEMBASSY MANILA 1210
RUEHMO/AMEMBASSY MOSCOW 1550
RUEHFR/AMEMBASSY PARIS 0019
RUEHRO/AMEMBASSY ROME 0026
RUEHUL/AMEMBASSY SEOUL 2355
RUEHKO/AMEMBASSY TOKYO 2167
RUCPDO/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC 0322

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TREASURY PASS USED TO WORLD BANK AND IMF
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STATE FOR EAP/CM AND EB/IFD/ODF

E.O. 12958: DECL: 07/20/2011
TAGS: [EAID](#) [EFIN](#) [PREL](#) [MG](#)
SUBJECT: EBRD OPENS FOR BUSINESS IN MONGOLIA

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¶1. (U) Summary: On July 15, 2006, the European Bank for Reconstruction and Development (EBRD) received notification from the Russian Federation that it had ratified Mongolia's accession to the EBRD, the last of the sixty-one EBRD members to do so. EBRD Business Group Director Olivier Deschamps and the new Director for Mongolia John Chomel-Doe on July 18 and 19 briefed representatives of diplomatic, UN, and multi-lateral agencies in Ulaanbaatar on the EBRD's approach and goals in Mongolia. EBRD's emphasis on private sector investment; non-concessional, commercial-rate loans for economically sustainable projects; and corporate good governance is a welcome complement to the USG's own focus on private sector-led development and good governance. Deschamps is particularly interested in collaborating with the Millennium Challenge Corporation to implement projects in Mongolia, citing previous such collaboration with MCC in Georgia. End Summary.

¶2. (SBU) Deschamps opened the July 18 briefing (attended by Ambassadors from US, UK, France, and India and representatives from Russia, Japan, the UN, World Bank, IMF, and Asian Development Bank) by describing the July 15, 2006 decision of the Russian Federation to ratify Mongolia's accession and EBRD plans for its office in Mongolia. (Comment: Mongolia was slated to be admitted in May, 2006, but the Russian Federation, alone, held up its ratification of the accession. According to Deschamps, in a private conversation with the Ambassador, the Russians extracted some concessions from Mongolia in exchange for the ratification. He was unclear exactly what the Russians had demanded and received, but he understood that this had been a major focus of the July 8-9 Joint Mongolian-Russian Economic Commission meeting held in Ulaanbaatar (septel to follow). It was noteworthy, said Deschamps that the Russian notification to the EBRD -- informing EBRD that President Putin had approved the March Duma ratification -- followed the meeting of the Commission and the July 10-12 visit to Mongolia of the Russian Prime Minister (for the 800th anniversary

celebrations).

13. (U) Mongolia will be included with other "poor" countries at the equivalent point in their economic development, in the "Southern and Eastern Europe, Caucasus and Central Asia" group. EBRD intended to open an office, headed by John Chomel-Doe (currently Director for Bulgaria) on September 1; the EBRD President will visit in mid-September; and the Mongolia strategy and work plan will be presented to the EBRD Board in November. Stressing that EBRD is unlike the World Bank and Asian Development Bank which provide soft loans and subsidies, Deschamps described the EBRD's focus: identify and finance economically sustainable private sector projects, through long-term, non-concessional financing based on LIBOR Plus (5 or 6 percent, in the case of Mongolia, whose credit rating is a B (S&P) to a B (Fitch)). The projects can be as small as \$500,000 (e.g., a single factory equipment improvement) or as large as \$300 million (e.g., a second north-south railroad line). EBRD has a proven track record in the mining sector in other countries and will apply this experience to Mongolia's developing mining sector. Other areas for potential investment would include: infrastructure (power plants), transportation (railroads and aviation), banking, and SME-level projects (e.g., cashmere/textile production and tourist facilities). EBRD takes a "banker's" approach to project financing and will implement these projects directly through commercial banks and NBFIs financial mechanisms. In terms of corporate governance, the EBRD can provide technical assistance in the form of retired CEOs who can be tapped to sit on the boards of Mongolian companies involved in EBRD-financed projects.

14. (SBU) During Deschamps' July 19 lunch with the British, German, and French Ambassadors and DCM, he sought views on a

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host of investment climate, political, and social issues. He spent a considerable block of time asking questions related to corruption and prospects for Mongolia's new anti-corruption law, and he sought "potential allies" for reform in Mongolia's Parliament. Deschamps was also interested in Mongolia's political leadership and the stability of the current coalition government. He wanted to know about Russian and Chinese interests in Mongolia and Mongolia's and Mongolians' attitudes towards both; ditto for Europe and the U.S. After listening to an extensive expose of Mongolia's faults and shortcomings tempered with cautious optimism, Deschamps, for his part, stressed that the EBRD was committed to establishing a relationship with Mongolia and making a difference. "The EBRD will find its niche and be relevant," he concluded.

15. (SBU) Comment: The European Bank for Reconstruction and Development had been preparing to open an office in Mongolia for over a year and had sent at least two fact-finding missions to Mongolia. The Embassy Country Team met with one such mission, led by Masaru Honma (Director, Central Asia) in June 2006. At the end of that meeting, one member of the EBRD team noted that he saw no real commitment by the Mongolian leadership to a market economy, only lip service and rent-seeking activities. Honma and others acknowledged that given EBRD guidelines, Mongolian political behavior (read: corruption), and the economic challenges facing land-locked Mongolia, the EBRD may not find many economically sustainable projects to fund. In the margins of the July 18 briefing, Honma conveyed to the Ambassador his appreciation for the frank and informative exchange of views at the June meeting, and confided that the EBRD's strategy and work plan for Mongolia was based largely on input provided by the Embassy/USAID. He and Chomel-Doe requested to meet with USAID's implementing partners (Chemonics Inc.) for the Economic Policy Reform and Competitiveness Project (EPRC) to discuss, inter alia, investments in the energy sector, cashmere, and tourism. Deschamps noted to the Ambassador that EBRD is interested in working with the US Millennium Challenge Corporation on project implementation in Mongolia;

he cited the precedent of EBRD-MCC collaboration in Georgia.
The Ambassador welcomed the offer and suggested that EBRD
follow up directly with the MCC in Washington. End Comment.
SLUTZ